

Financial Statements of

MOHAWK 4 ICE CENTRE

Year ended December 31, 2018

MOHAWK 4 ICE CENTRE

Financial Statements

December 31, 2018, with comparative figures for 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the City of Hamilton:

Opinion

We have audited the financial statements of Mohawk 4 Ice Centre (the Centre), which comprise:

- the statement of financial position as at end of December 31, 2018
- the statement of operations for the year then ended
- the statement of changes net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Centre as at end of December 31, 2018, and its results of operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Centre in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material



uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
March 7, 2019

MOHAWK 4 ICE CENTRE

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets		
Cash and cash equivalents	\$ 339,578	\$ 219,453
Accounts receivable	216,290	135,783
Due from the City of Hamilton	-	137,806
	555,868	493,042
Liabilities		
Accounts payable and accrued liabilities	165,626	149,290
Deferred revenue (note 5)	410,739	390,884
Due to the City of Hamilton	27,711	-
	604,076	540,174
Net debt	(48,208)	(47,132)
Non-financial assets		
Prepaid expenses	48,208	47,132
Accumulated surplus	\$ -	\$ -

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	Budget	2018	2017
Revenues:			
Ice rentals (note 3 (b))	\$ 2,308,278	\$ 2,376,311	\$ 2,325,111
League	553,000	573,565	557,422
Leases	158,800	161,448	156,400
Advertising	102,000	88,462	104,015
Vending	28,800	20,458	23,777
Other	11,420	17,692	17,606
Tournament	6,000	4,857	5,089
Total revenues	3,168,298	3,242,793	3,189,420
Expenses:			
Salaries and benefits	769,800	803,427	741,040
Utilities	577,500	565,216	627,348
Repairs and maintenance	224,500	247,823	214,913
Management fees (note 3 (c))	217,950	217,217	216,448
League	186,000	190,266	174,809
Insurance	44,100	45,842	47,937
Bank charges and interest	30,420	33,122	31,583
Marketing and sales	12,990	22,354	11,205
Office	12,864	12,577	10,045
Professional fees	3,300	6,300	3,300
Telephone	5,100	4,497	3,926
Training	3,300	3,719	3,507
Tournament	2,750	2,212	2,245
Travel	1,800	1,560	1,650
Total expenses	2,092,374	2,156,132	2,089,957
	1,069,924	1,086,661	1,099,463
Transfer to City of Hamilton's Reserve for Capital Projects (note 3 (d))	(100,000)	(99,996)	(125,000)
Transfer to City of Hamilton for debt repayment (note 3 (g))	(969,924)	(969,924)	(969,924)
Net revenues	-	16,741	4,539
Profit share expense (notes 3 (f), 4)	-	(16,741)	(4,539)
Annual surplus	-	-	-
Accumulated surplus, beginning of year	-	-	-
Accumulated surplus, end of year	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Changes in Net Debt

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Annual surplus	\$ -	\$ -
(Increase) decrease in prepaid expenses	(1,076)	(37,292)
Change in net debt	(1,076)	(37,292)
Net debt, beginning of year	(47,132)	(9,840)
Net debt, end of year	\$ (48,208)	\$ (47,132)

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ -	\$ -
Change in non-cash assets and liabilities:		
Accounts receivable	(80,507)	(8,627)
Prepaid expenses	(1,076)	(37,292)
Accounts payable and accrued liabilities	16,336	(6,355)
Deferred revenue	19,855	19,689
Due from City of Hamilton	165,517	33,054
Net change in cash and cash equivalents	120,125	469
Cash and cash equivalents, beginning of year	219,453	218,984
Cash and cash equivalents, end of year	\$ 339,578	\$ 219,453

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Notes to Financial Statements

Year ended December 31, 2018

1. Nature of operations:

The Mohawk 4 Ice Centre (the "Centre") is a four pad arena complex owned by The Corporation of the City of Hamilton ("City of Hamilton"). The City of Hamilton entered into a 10 year partnership agreement (the "Agreement") with Hamilton Arena Partners Inc. ("HAP"), owned and operated by Nustadia Recreation Inc., to maintain and operate the Centre. The agreement was renewed in 2014 for an extension period of 5 years.

2. Significant account policies:

(a) Basis of accounting:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Centre are as follows:

(b) Basis of accounting:

The Centre follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measureable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(c) Revenues:

Revenues are recognized in the fiscal year in which the related services are performed.

(d) Deferred revenue:

Deferred revenue represents funds collected for which related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year in which the related services are performed.

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Notes to Financial Statements (continued)

Year ended December 31, 2018

2. Significant account policies (continued):

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(f) Operating and capital reserves and reserve funds

Operating and capital reserves and reserve funds held by the City of Hamilton for use by the Centre are not reported in these financial statements.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Transactions with the City of Hamilton:

(a) Bank account:

HAP has established a bank account in its own name pursuant to the operating agreement between the City of Hamilton and HAP. This bank account is a trust account for the benefit of the City of Hamilton. The City of Hamilton may at any time require that all monies held in the trust bank account be transferred to another separate account maintained by the City of Hamilton.

(b) Ice rentals:

The City of Hamilton shall have available 3,620 hours of prime-time ice at the Centre. The City of Hamilton is responsible for scheduling, invoicing and collecting the revenue for this ice time. During the year, ice rental revenue in the amount of \$531,528 (2017 - \$516,052) with respect to City of Hamilton ice time was included in revenue for the year.

(c) Management fees:

Pursuant to the agreement between the City of Hamilton and HAP, the City of Hamilton has agreed to pay HAP an annual management fee of \$150,000, adjusted annually for increases in the consumer price index for Hamilton, for managing the facility on behalf of the City of Hamilton. In addition HAP is entitled to an annual commission equal to 10% of the gross revenues from sponsorship, advertising, vending, leasing and pouring and naming rights. During the year, the City of Hamilton paid HAP \$217,217 (2017 - \$216,448) with respect to these management fees and commissions.

MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Transactions with the City of Hamilton (continued):

(d) Reserves:

The City of Hamilton holds a capital fund reserve for the Centre in the amount of \$728,571 (2017 - \$688,104) to be used primarily to finance major capital repairs to the facility. The capital fund has not been included in the Centre's statement of financial position nor has its operations been included in the statements of operations and changes in net debt.

	2018	2017
Balance, beginning of year	\$ 688,104	\$ 628,415
Expenditures made on capital projects	(77,450)	(79,660)
Contribution to fund future capital projects	99,996	125,000
Interest income earned on the reserve	17,918	14,349
Balance, end of year	\$ 728,571	\$ 688,104

(e) Operating stabilization account:

The City of Hamilton will establish and control a stabilization account to help offset the City of Hamilton's cash requirements in dealing with future operating deficits of the Centre. The account is to be funded from the operating surplus to a maximum of \$30,000 per year. Deposits to the account will continue until the account balance is \$250,000.

As at December 31, 2011, the account was fully funded. Thus, no amounts were contributed to the operating stabilization account in 2018 or 2017.

(f) Operating deficits and surplus:

Subsequent to the first year of operations, the City of Hamilton and HAP have agreed to each fund 50% of any operating deficit. HAP's obligation to fund an operating deficit in any year is limited to the annual commission income for the year plus \$30,000. The first \$30,000 of the operating surplus is to fund the operating stabilization account. The remaining surplus is to be distributed to the City of Hamilton (70%) and HAP (30%). As the operating stabilization account is fully funded, the entire balance of the surplus is distributed between the City of Hamilton and HAP.

(g) Debt repayment:

The construction of the Centre was financed through development charges of \$5 million and internal debt of \$12 million. The internal debt charges bear interest at 5.245% and are repayable in blended monthly installments of \$80,828. The debt is held by the City of Hamilton and the Centre receives an internal debt charge allocation for its repayment. Total repayments made by the Centre in 2018 was \$969,924 (2017 - \$969,924).

MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Related party transactions:

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Accounts receivable include receivables, in the normal course of business, from related parties in the following amounts:

	2018	2017
Nustadia Recreation Inc.	\$ 14,988	\$ 10,327

Accounts payable and accrued liabilities includes trade payables, in the normal course of business, to related companies, in the following amounts:

	2018	2017
Hamilton Arena Partners Inc.	\$ 44,317	\$ 42,171
City of Hamilton	11,719	3,177
Nustadia Recreation Inc.	3,676	3,358

The Centre had the following related party transactions with Nustadia Recreation Inc. during the year:

	2018	2017
Advertising, leasing, and vending revenue recognized by the Centre from contracts administered by Nustadia	\$ 27,098	\$ 29,667
Wage recovery expenses	81,926	81,958

In accordance with the terms of the partnership agreement disclosed in note 3(f), the operating surplus has been allocated as follows:

	2018	2017
City of Hamilton	\$ 11,719	\$ 3,177
Hamilton Arena Partners Inc.	5,022	1,362
	\$ 16,741	\$ 4,539

MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2018

5. Deferred revenue:

Included in deferred revenue are amounts for ice and facility rentals which will take place in the next fiscal year as well as amounts received for advertising contracts.

	2018	2017
Balance, beginning of year	\$ 390,884	\$ 371,195
Receipts	410,739	390,884
Transfer to revenue	(390,884)	(371,195)
	<u>\$ 410,739</u>	<u>\$ 390,884</u>

6. Financial risks and concentration of credit risk:

(a) Credit risk:

The Centre is subject to credit risk. Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Centre is exposed to credit risk with respect to accounts receivable. The Centre assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Centre is the carrying value of accounts receivable at year end.

(b) Liquidity risk:

The Centre is subject to liquidity risk. Liquidity risk is the risk that the Centre will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Centre manages its liquidity risk by monitoring its operating requirements and the preparation of a budget forecast to ensure sufficient funds exist to fulfill its obligations. The City of Hamilton also maintains the capital fund reserve and operating stabilization account in anticipation of future capital and operating requirements of the Centre.